

## Acquire or be acquired: Three reasons why asset managers are consolidating

Megadeals in the asset management industry have been coming thick and fast: Standard Life's £3.8 billion tie-up with Aberdeen Asset Management, Amundi's €3.55 billion acquisition of Pioneer and Henderson and Janus Capital joining forces, to name but a few. Activity is likely to continue as MiFID II comes into force.

### Our 2018 M&A forecast

#### Asset management



Exponential growth in consolidation at all levels underpinned by regulatory change.



**Consolidation is likely to continue apace, but there is no M&A “magic wand”: The right business pairing, efficient execution and post-deal integration are key**

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## Three key drivers for consolidation in the asset management sector in 2018:

1

### Keeping up with compliance

Asset managers have faced a wave of regulatory change since the financial crisis. MiFID II and GDPR are arriving imminently and will materially increase the volume of regulation asset managers need to manage. Firms that fail to do so run the risk of huge fines.

The Financial Conduct Authority, meanwhile, following a review of the industry, has clamped down on commission-based fee structures and the charging of dealing commissions for research. This has squeezed fee revenue further.

Ultimately, what this means is that more resources are needed to ensure and demonstrate compliance. M&A has been an obvious strategy for achieving synergies and attempting to benefit from economies of scope and scale.

2

### Expanding strategy, geography and appetite in alternative assets

Customers are becoming more demanding and are no longer satisfied with single-strategy products restricted to a handful of geographies.

They want access to developed and emerging markets and there is appetite for exposure to alternative assets like real estate, infrastructure and private equity in addition to traditional bonds and equities. Schroders has backed alternatives specialist Adveq, and M&G has expanded in Europe.

More deal activity is anticipated as asset managers actively seek to build themselves into “one-stop shops”, offering investors exposure to a variety of strategies across a wider range of geographies.

3

### Rise of the robots

‘Robo-advisers’ have disrupted the asset management model, providing cheap, diversified portfolios based on client risk profiles that can be managed online. They have been especially popular with younger investors. Traditional managers are having to move fast to keep up.

# Asset management (continued)



## 2018 outlook

**Steep upward trajectory in M&A activity at all market levels, in line with growing international buyer interest. A significant number of notable market players have already started to implement their consolidation strategies.**

## Current market

Upward, significant

## We are seeing

- Consolidation at all market levels, in multiple forms: mergers of equals, bolt-on acquisitions and intra-group reorganisations
- Growing polarisation between global players with diversified offerings and local niche players
- Some banks stepping back from asset management, while others step up

## Key drivers

- Profitability squeeze from passive strategies, movement away from traditional fund management models (i.e., commission-based to fee-based)
- Cost escalation from increasing regulatory burden:
  - MiFID II, which will lead to higher overhead costs due to restrictions on commission-based arrangements with brokers, stringent fee transparency requirements and payment for equity research
  - GDPR, which will necessitate significant upfront investment and lead to higher ongoing compliance costs from direct obligations on both customer data controllers and processors
  - AIFMD, which has brought conduct of business, safekeeping of investments and delegation of certain functions within the regulatory perimeter
- Operational synergies, economies of scale, expertise, enhanced product offerings and new distribution channels
- Global players moving to and/or upscaling in key growth markets
- Response to increasing competition from fintech and 'alternative' service providers
- Growing international, private equity and 'non-traditional' buyer interest
- Deployment of existing M&A war-chests

## Challenges

- Uncertain regulatory environment, exacerbated by greater EU and local regulatory intervention
- Competition for attractive targets resulting in over-valuation of robo-advisors and other fintech businesses
- Few 'mid-size' assets remain available, which may mean M&A polarises at the top and bottom of the market, resulting in higher valuations
- Brexit

## Trends to watch

- 'Winner takes all'—becoming the go-to provider of high-margin products/services
- US inbound investment into Europe—weaker £/€ creates more opportunities for US buyers
- Competing with international fund managers in EU markets
- Technological development (e.g., AI, machine learning, big data and analytics)
- Outsourcing to reduce costs, but MiFID II may disadvantage some European asset managers
- Use of passive investment strategies—is the movement away from active fund management models permanent?
- Investors are more demanding and have higher expectations
- EU fund managers are expanding into international markets to meet growing customer demand for global products

## Asset management – Key deals and situations

<b>Market consolidation</b>	<b>Larger:</b> <ul style="list-style-type: none"> <li>□ Lazard's, Lloyds Banking Group's, Vanguard's and HSBC's announcement of expansion plans for asset management (February – November 2017)</li> <li>□ BNP Paribas Asset Management-THEAM-CamGestion merger (November 2017)</li> <li>□ Prudential-M&amp;G merger (August 2017)</li> <li>□ Standard Life-Aberdeen Asset Management merger (July 2017)</li> <li>□ Amundi's acquisition of Pioneer (March 2017)</li> </ul>	<b>Mid-sized:</b> <ul style="list-style-type: none"> <li>□ Theodoor Gilissen-Insinger de Beaufort merger (August 2017)</li> <li>□ ICU's acquisition of UkrSib Capital (July 2017)</li> <li>□ Bank Pekao's acquisition of 51% of Pioneer Pekao Investment Management (June 2017)</li> <li>□ Groupe Crystal's acquisition of Expert &amp; Finance (June 2017)</li> <li>□ Lombard International's JV with Akaan (May 2017)</li> <li>□ Amaika's announced plans to acquire firms of equal and smaller sizes (May 2017)</li> </ul>	<b>Smaller:</b> <ul style="list-style-type: none"> <li>□ Storebrand's acquisition of 90.95% of SKAGEN (October 2017)</li> <li>□ Mirova's acquisition of 51% of Althelia Ecosphere (October 2017)</li> <li>□ Lakefield-Edrofin merger (October 2017)</li> <li>□ Impax's acquisition of Pax World (September 2017)</li> <li>□ Bellpenny-Ascot Lloyd merger (July 2017)</li> <li>□ Van Lanschot Kempen's acquisition of UBS' Dutch wealth management business (June 2017)</li> <li>□ Aldermore's acquisition of 48% of AFS (June 2017)</li> </ul>
<b>Non-core disposals and focus on core markets</b>	<ul style="list-style-type: none"> <li>□ Banco BPM's disposal of Aletti Gesttielle (November 2017)</li> <li>□ Danske Bank's disposal of part of its wealth management business to Davy Group (July 2017)</li> <li>□ UBS's disposal of its Dutch wealth management business (June 2017)</li> <li>□ BNP Paribas's disposal of UkrSib Capital (June 2017)</li> <li>□ UniCredit's disposal of Pioneer Asset Management (March 2017)</li> </ul>		
<b>Banks searching for stable returns</b>	<ul style="list-style-type: none"> <li>□ Deutsche Bank's and Julius Baer's announced UK expansion plans (July – August 2017)</li> <li>□ Credit Suisse's announced plans to expand its onshore wealth management business (January 2017)</li> </ul>		
<b>Growing buyer appetite</b>	<ul style="list-style-type: none"> <li>□ <b>Financial sponsors:</b> <ul style="list-style-type: none"> <li>– KKR-backed Avendus's acquisition of Ocean Dial (August 2017)</li> <li>– FAB's acquisition of a majority stake in Halkin Asset Management (May 2017)</li> </ul> </li> <li>□ <b>Non-traditional investors:</b> <ul style="list-style-type: none"> <li>– Saudi Public Investment Fund's announced plans to invest US\$65 billion with foreign asset managers (May 2017)</li> </ul> </li> <li>□ <b>Foreign buyers:</b> <ul style="list-style-type: none"> <li>– HNA's acquisition of a strategic stake in Old Mutual's US asset management unit (March 2017)</li> </ul> </li> </ul>		
<b>Regulatory intervention</b>	<ul style="list-style-type: none"> <li>□ EU Commission published its proposals on a framework for review of in-bound foreign direct investments (September 2017)</li> <li>□ French Autorité des marchés financiers' powers under the Sapin II Law vis-à-vis conditions for implementing redemption gates on open-ended funds (June 2017)</li> <li>□ UK FCA's reaction to the charging of dealing commissions for research (March 2017)</li> </ul>		
<b>EU fund managers expanding into foreign markets</b>	<ul style="list-style-type: none"> <li>□ Impax Asset Management's acquisition of Pax World Management (September 2017)</li> <li>□ AXA's announced Asia expansion plans (August 2017)</li> <li>□ UBS Asset Management's successful application for Chinese fund management licence (July 2017)</li> <li>□ Schroders' acquisition of Adveq (July 2017)</li> </ul>		
<b>Competition with foreign fund managers</b>	<ul style="list-style-type: none"> <li>□ Hywin Financial Holding Group's acquisition of Azure Wealth (April 2017)</li> <li>□ HNA's acquisition of C-Quadrat (May 2017)</li> <li>□ GF International Asset Management UK's launch of new LSE-listed ETF products (January 2017)</li> </ul>		
<b>Technological advancement</b>	<ul style="list-style-type: none"> <li>□ Allianz, AXA and Aviva announced continuing deliberations on financing of investment research (August 2017)</li> <li>□ Julius Baer's investment in Nectar Financial (July 2017)</li> <li>□ Natixis' deployment of blockchain through its FundsDLT mobile app (July 2017)</li> <li>□ BlackRock's investment in Holtzbrinck and Tengelmann (June 2017)</li> <li>□ Hellman &amp; Friedman's and GIC's acquisition of Allfunds (May 2017)</li> <li>□ BinckBank's acquisition of Pritle (March 2017)</li> <li>□ RBS's replacement of 220 investment advisers with robo-advisers (March 2017)</li> </ul>		
<b>Outsourcing vs. insourcing</b>	<ul style="list-style-type: none"> <li>□ Deutsche Asset Management's launch of its internal research institute (July 2017)</li> </ul>		
<b>Use of passive investment strategies</b>	<ul style="list-style-type: none"> <li>□ <b>Scale back:</b> <ul style="list-style-type: none"> <li>– Deutsche Bank closed 16 ETFs in Hong Kong (July 2017)</li> <li>– BlackRock Canada delists seven ETFs (April 2017)</li> </ul> </li> <li>□ <b>Expansion:</b> <ul style="list-style-type: none"> <li>– L&amp;G's acquisition of Canvas (November 2017)</li> <li>– WisdomTree's acquisition of ETF Securities' European commodities platform (November 2017)</li> <li>– Invesco's acquisition of Source (August 2017)</li> </ul> </li> </ul>		